Continuing Rental Assistance for USDA Rural Development Properties with Maturing Mortgages

Minnesota Housing Finance Agency **Mary Tingerthal, Commissioner**

Rental assistance provided by the U.S. Department of Agriculture (USDA) Rural Development plays a critical role in ensuring that the nation's most vulnerable rural residents have decent, safe, and affordable housing. Yet under current policy:

> ***USDA rental assistance is available only to properties with active USDA mortgages. Once the underlying mortgage matures, the subsidy is cancelled.***

Unless this issue is addressed, thousands of rural households will lose this vital assistance when the USDA mortgages on their rental buildings mature. As a nation, we cannot afford to pull the rug out from under these individuals and families.

The demand for affordable housing is much greater than the supply. In rural communities across the country, 2.1 million lower-income renter households—those with annual incomes under $50,000—are paying more than 30 percent of their income on housing.[1] USDA Rural Development provides rental assistance across all states to about 282,000 of these households, most of which have annual incomes far less than $50,000. About 6,700 households in Minnesota receive USDA rental assistance. (A table showing the distribution of rental assistance units among states is included in Appendix 1.)

Loss of USDA rental assistance would have a profound impact on extremely-low-income rural households. For example, by 2020, 13 percent of Minnesota's USDA Rural Development mortgages will mature, with another 17 percent maturing by 2030 and the remaining 70 percent after that. In total, Minnesota has 75 properties (1,097 rental units) with mortgages that will mature by 2020.

These 75 properties serve communities in the most rural parts of the state. (See map on the following page.) Populations in these communities are aging—33 percent of residents are age 55 and older. Their residents are struggling to pay the rent—about half of lower-income renters are spending more than 30 percent of their household income on housing.[2]

Of the 1,097 rental units in the 75 properties, nearly 60 percent (643) are subsidized through USDA rental assistance. Tenants in the 643 rental assistance units have the following characteristics:[3]

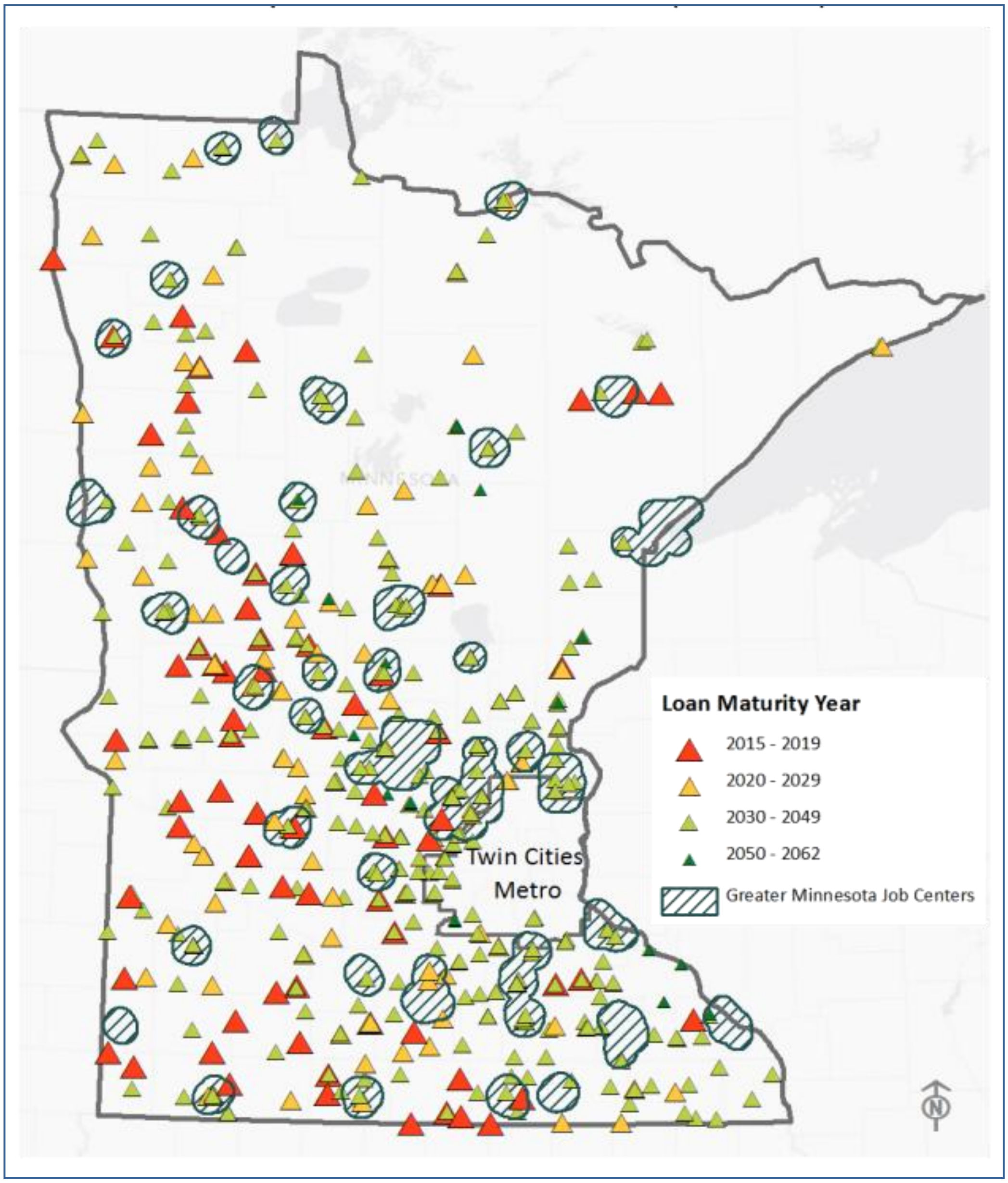
- Average household income: $10,880

[1] Minnesota Housing analysis of data from the U.S. Census Bureau's 2010 American Community Survey. Areas outside of Metropolitan Statistical Areas (MSAs) are used as a proxy for rural communities served by USDA-Rural Development. Households spending more than 30 percent of income on housing are considered "cost burdened."
[2] Minnesota Housing analysis of data from various sources, primarily the U.S. Census Bureau.
[3] U.S. Department of Agriculture – Rural Development (St. Paul Office).

- Average rent: $434 per month
- Average rental assistance payment: $250 per month
- Proportion of residents who are elderly: 56 percent
- Proportion of elderly households with a member who is disabled: 32 percent

Annually, tenants are paying about $2,200 toward their rent. Without the USDA Rural Development subsidy, their rents would more than double, consuming half of their annual incomes.

Loan Maturity Dates of USDA Rural Development Properties



Source: USDA Rural Development of Minnesota

The loss of USDA rental assistance would predominantly affect extremely-low-income seniors and people with disabilities who have few resources and options. They cannot afford to pay more than twice their current rent levels and are clearly at risk of losing their housing when the USDA mortgages expire.

The situation requires a national policy change to ensure that these rural residents across the nation avoid the drastic increases in rent that would accompany the loss of USDA rental assistance.

RECOMMENDATION

Support a policy to continue rental subsidies when USDA Rural Development mortgages mature.

The recommendation does not involve building new affordable housing because the housing units are already in place. Implementation would not require building new programs from the ground up. Rather, ongoing rent support could be provided through the expansion of existing mechanisms.

One approach would be to keep USDA rental assistance tied to the property after the mortgage matures. As long as they continue to meet eligibility requirements, current residents would keep the assistance already being provided and new residents would have access to the same.

A second option is to provide subsidy vouchers to those residents receiving USDA rental assistance at the time the mortgage matures. Currently, USDA offers vouchers to tenants only when a property owner prepays the mortgage or USDA forecloses on a property. Tenants face the same loss of rental assistance, with the same untenable results, when a mortgage expires. This could be addressed by expanding the reach of the current voucher program.

Nationally, organizations dedicated to affordable housing are proposing similar policy changes. For example, the Council for Affordable and Rural Housing, the Housing Assistance Council, and the National Housing Law Project have developed legislative language to continue USDA rental assistance through the current voucher program. See Section 4(e) in the legislative language attached as Appendix 2. The proposed legislation would require the USDA to provide vouchers to individuals in the maturing mortgage situation as it does for prepayment and foreclosure. As of the spring of 2012, these groups were seeking a sponsor to introduce this and other language in Congress.

Overall, the country needs consistent continuation of rental assistance across all federal programs. As part of her June 5, 2012, testimony to the Bipartisan Commission in St. Louis, Mary Tingerthal provided two reports that address consistency issues among HUD programs: (1), *Preservation of HUD-Assisted Housing* (Congressional Research Service, April 2010); and (2) *Enactment of Protection of "Orphan" Rental Assistance Properties* (LISC, undated). The development of a continuation policy/program for USDA Rural Development should be coordinated with efforts to increase consistency among HUD policies.

Households with Rental Assistance from USDA Rural Development, by State

State	Rental Assistance Units	State	Rental Assistance Units
ALABAMA	8,016	MONTANA	1,997
ALASKA	802	NEBRASKA	2,593
ARIZONA	3,418	NEVADA	1,683
ARKANSAS	6,183	NEW HAMPSHIRE	2,006
CALIFORNIA	16,314	NEW JERSEY	2,001
COLORADO	2,822	NEW MEXICO	3,234
CONNECTICUT	1,740	NEW YORK	5,591
DELAWARE	1,274	NORTH CAROLINA	16,306
FLORIDA	12,356	NORTH DAKOTA	2,062
GEORGIA	8,462	OHIO	8,953
HAWAII	762	OKLAHOMA	5,165
IDAHO	4,200	OREGON	4,787
ILLINOIS	7,459	PENNSYLVANIA	6,975
INDIANA	7,806	RHODE ISLAND	376
IOWA	7,664	SOUTH CAROLINA	6,582
KANSAS	3,993	SOUTH DAKOTA	4,655
KENTUCKY	6,354	TENNESSEE	6,932
LOUISIANA	7,935	TEXAS	14,757
MAINE	6,076	UTAH	1,731
MARYLAND	3,073	VERMONT	1,360
MASSACHUSETTS	1,587	VIRGINIA	6,641
MICHIGAN	9,339	WASHINGTON	6,544
MINNESOTA	**6,756**	WEST VIRGINIA	4,353
MISSISSIPPI	9,102	WISCONSIN	6,674
MISSOURI	9,092	WYOMING	1,194
		TOTAL	281,987

This paper has been submitted by Mary Tingerthal, Commissioner of Minnesota Housing – a state agency that has invested more than $10.8 billion and assisted more than 1 million households since its establishment in 1971. Tingerthal previously held senior management positions with the Housing Partnership Network, the National Equity Fund, GMAC Residential Funding and Community Reinvestment Fund and serves on the board of the National Housing Trust.

Minnesota Housing
Finance Agency

Legislative Language--USDA Rental Assistance Continuation

As proposed by the Council for Affordable and Rural Housing, the Housing Assistance Council, and the National Housing Law Project.

SEC. 4. RURAL PRESERVATION AND RURAL TENANT PROTECTION VOUCHERS.

(a) Section 542 of the Housing Act of 1949 (42 U.S.C. 1490r) is amended as follows:

> "(1) Subsection 542(a) and (b) are redesignated as subsections (b) and (c) and the following is inserted as subsection (a):
>
> > '(A) any other law notwithstanding, all rental housing voucher programs administered by the Secretary, regardless of their authorization or appropriation source, shall be operated consistently with the provisions of this section.'

(2) Section 542 of the Housing Act of 1949 (42 U.S.C. 1490r) is amended by adding at the end the following new subsections:

> "(d) RURAL PRESERVATION ASSISTANCE.—In the case of a housing project subject to a loan made under section 514, 515, or 516 that is a preserved project (as such term is defined in section 545(i)), the Secretary shall, to the extent that amounts for assistance under this subsection are provided in advance in appropriation Acts, make available to each eligible household (as such term is defined in section 545(i)) that is not already assisted under the rental assistance program under section 521 or the program for rental assistance under section 8 of the United States Housing Act of 1937 (42 U.S.C. 1437f), and is residing in the project upon the date that a long-term use agreement is entered into pursuant to section 545(e) between the project owner and the Secretary, voucher assistance under this subsection or rental assistance under section 521 upon such date, as follows:
>
> > "(1) The amount of assistance provided shall be sufficient to allow such household to remain in the project after it is preserved.
> >
> > "(2) The percentage of adjusted income paid by the eligible household for rent and utilities for the assisted dwelling shall not exceed 30 percent of adjusted income of the eligible household.
> >
> > "(3) The assistance shall be available to the eligible household only during the period in which the eligible household resides in the preserved project and the long-term use agreement remains in effect.

“(4) Upon termination of the participation of the eligible household in the assistance program, the assistance shall remain attached to the preserved project and shall be available for use by another eligible household residing in the preserved project.

“(e) RURAL TENANT PROTECTION VOUCHERS FOR PAYMENTS IN FULL, PREPAYMENTS AND FORECLOSURES.—

“(1) IN GENERAL.—In the case of a housing project subject to a loan made under section 514, 515, or grant under 516 that is paid in full, prepaid or foreclosed upon, the Secretary shall, to the extent that amounts for assistance under this subsection are provided in advance in appropriation Acts, make available to each eligible household (as such term is defined in section 545(i)) that is not assisted under the program for rental assistance under section 8 of the United States Housing Act of 1937 (42 U.S.C. 1437f), and is residing in a dwelling unit in the project on the date the loan is paid in full, or upon the date that the Secretary approves the prepayment or submits notice of foreclosure to the project owner, as applicable, voucher assistance upon such date, as follows:

“(A) RELOCATION VOUCHERS.—In the case of any such eligible household who must relocate from a project for which the loan is being paid in full, prepaid or foreclosed upon, voucher assistance under this subsection shall be subject to the terms of section 8(o) of the United States Housing Act of 1937 (42 U.S.C. 1437(o)), except that—

“(i) the percentage of adjusted income paid by the eligible household for rent and utilities for the assisted dwelling unit shall not at any time exceed 30 percent of the adjusted income of the eligible household; and

“(ii) a voucher provided pursuant to this subparagraph shall be subject to the terms of section 8(r) of such Act (relating to portability), except that if an eligible household uses the voucher to move to a community other than the community in which the project from which the family relocated pursuant to such prepayment or foreclosure is located, upon termination of the participation of such eligible family in the voucher program, the voucher shall be returned for use in the community in which such project is located.

“(B) ENHANCED VOUCHERS.—In the case of any such eligible household who remains in a project for which the loan is paid in full, prepaid or foreclosed upon, voucher assistance under this subsection shall be subject to the terms of section 8(t) of the United State Housing Act of 1937 (42 U.S.C. 1437f(t)), except that—

“(i) the percentage of adjusted income paid by the eligible household for rent and utilities for the assisted dwelling unit shall not at any time exceed 30 percent of the adjusted income of the eligible household;

"(ii) the owner of the project may not refuse to lease, to an eligible household for whom voucher assistance under this subparagraph is made available, any available appropriately sized rental dwelling unit in the project;

"(iii) voucher assistance under this subparagraph may be used only for dwelling units in housing that is decent, safe, and sanitary; and

"(iv) upon termination of participation of such eligible family in the enhanced voucher program, the voucher shall convert to a relocation voucher under subparagraph (A) of this paragraph, and shall be available with respect to such project only to provide assistance in accordance with the provisions of such subparagraph.

"(f) ADMINISTRATION.—The Secretary may contract with a public housing agency or a private or nonprofit organization to administer vouchers authorized under subsections (c) and (d).

(2) Section 542(b) of the Housing Act of 1949 (42 USC 1490r(b) is amended by deleting subsection (2) and adding at the end the following new subsections:

'(2) provide plain language notices to eligible recipients calculated to encourage use of the voucher, including providing multiple notices explaining how to obtain the voucher'

'(3) provide plain language notices to voucher recipients prior to renewal of the vouchers explaining the renewal process and advising them of the conditions under which interim adjustments may be made in the level of assistance provided.'

"(g) RENEWAL.—Subject to availability of appropriations, the Secretary shall annually renew vouchers authorized under subsections (d) and (e) and shall:

1. promptly adjust the monthly assistance payment for any family upon the request of the family whenever the voucher recipient's household income decreases by more than $50 per month between annual adjustments;

2. adjust annual voucher payments by taking into consideration rent adjustment that are reasonable in comparison with rents charged for comparable dwelling units in the private unassisted, local market, except the adjusted rent shall not be less than the initial rent under any prior voucher or rental assistance contract.'

"(h) Use of savings.—Notwithstanding any other provision of law, any amounts made available for voucher assistance under subsections (c) and (d) that remain unused because of increases in the incomes of household assisted under such vouchers shall be available to the Secretary for eligible activities under this Act.

"(i) Applicability of section 8 program.—Except as specifically provided otherwise in this section, to the maximum extent practicable, the Secretary shall administer voucher assistance under subsections (d) and (e) in accordance with, but not subject to, regulations and administrative guidance for housing vouchers administered by the Secretary of Housing and Urban Development under section 8(o) of such Act.

"(j) Authorization of appropriations.—There is authorized to be appropriated for voucher assistance under subsections (d) and (e) such sums as may be necessary for each of fiscal years 2013 through 2017."